Statement of

UNITED EGG PRODUCERS

Before the
House Committee on Agriculture

March 22, 2001

The United Egg Producers appreciate the opportunity to place their views before the House Agriculture Committee. UEP is a farmer cooperative whose members account for over 80% of shell egg production in the United States. Farm cash receipts for eggs amounted to $4.3 billion in 2000.

The Committee will hear testimony today from a witness representing the broiler and turkey industries. We commend this testimony to the Committee's attention, and are in broad agreement with its themes and priorities.

The Committee's present series of hearings deals with commodity price and income supports. There are no price or income supports for the egg industry, and we do not request any such policies. Likewise, we prefer to leave the design of these policies to those directly affected by them.

Like other livestock and poultry producers, however, we do ask Congress to avoid designing other commodity programs in ways that would hurt our industry. Our basic request is to allow commodity prices to be determined by the forces of supply and demand. We ask Congress to craft price or income supports in such a way that their interference with market signals is minimal.

Some Priority Issues

At another time, we will seek to testify before the Committee and its subcommittees on those topics that affect egg producers more directly. These topics include –

- **Trade policy**, where we support efforts to reduce trade barriers worldwide but would urge Congress and the Administration to consider seriously a renewal of the Export Enhancement Program for eggs as a means of increasing U.S. leverage in ongoing trade talks and restoring foreign sales of U.S. shell eggs in the face of subsidized European competition;
- **Environmental and conservation policy**, where we urge Congress to provide substantial resources for new or existing programs that offer voluntary assistance to encourage livestock and poultry producers to adopt environmentally sound management and stewardship practices, and share some of the cost imposed by the federal government upon producers under state and federal regulations, including those pursuant to the Clean Water Act; and
- **The future productivity and sustainability of U.S. agriculture**, which will require a diverse range of efforts – expanded research funding, continued improvements to the safety of our food supply, and efforts to educate the public about the importance and role of production agriculture.

We will provide additional information on these priorities as the Committee commences hearings and deliberation in each area.

Feed Cost: A Critical Factor in Egg Production

Feed is the single greatest cost of egg production. Almost 60% of the cost of producing eggs is feed.[1] Therefore, the egg industry has a major stake in federal policies that would significantly affect the cost of feed.
For each dozen eggs she lays, a hen eats about 3.5 pounds of feed.[2] Generally, 67% of a typical feed ration by weight would be corn, 22%

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[1] Donald Bell, "A Summary of Current Egg Industry Statistics." Riverside, CA: University of California, December 2000. p. 7

[2] Anonymous, *Eggcyclopedia.* Park Ridge, IL: American Egg Board, 1999. p. 2.2

soybean meal and the remainder other ingredients. In some regions, sorghum might substitute for corn and cottonseed meal for soybean meal.[3]

Nationwide, our industry produces about 6 billion dozen table eggs per year.[4] This means annual feed consumption of approximately 21 billion pounds. Since layer rations are approximately 67% corn by weight, the table egg industry's annual demand for corn is about 14 billion pounds or about 250 million bushels.

If each dozen eggs equates to 3.5 pounds of feed, and if about 67% of the feed is corn by weight, then each dozen eggs represents 2.3 pounds of corn. In early March, cash corn bids at Chicago were $2.12 per bushel, and egg producers in many regions of the country would pay substantially more than this.[5] Since each bushel of corn weighs 56 pounds, the value of corn in a dozen eggs, at $2.12 per bushel of corn, is approximately 9 cents.

A rapid increase in feed costs makes a dramatic difference in production costs. If the price of corn were $3.12 instead of $2.12 per bushel, the extra $1 per bushel would mean that the corn cost would be 13 cents instead of 9 cents in each dozen eggs.

This 4-cent difference may sound modest. However, in 2000 the average production cost for a dozen eggs was estimated to be 42.8 cents per dozen, of which feed costs amounted to 24.6 cents per dozen. The average egg price paid to producers in 2000, according to USDA, was 46.9 cents per dozen. This meant an average margin for the year of just 4.1 cents per dozen, and for the first half of the year returns were negative.[6] A 4-cent-per-dozen increase

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3 Donald Bell, Poultry Specialist, private correspondence, March 15, 2001; William Stadelman, ed., *Egg Science and Technology.* Binghamton, NY: Food Products Press, 1990. p. 28.

4 WAOB/USDA, *World Agricultural Supply and Demand Estimates.* Washington: U.S. Department of Agriculture, March 8, 2001. Total egg production is about 7 billion, but almost 1 billion are hatchery eggs rather than table eggs.

5 *Feedstuffs,* March 19, 2001. Like other consumers of grains, the egg industry's costs for commodities will exceed commonly quoted prices paid to the farmers who grow these commodities because of transportation and other costs.

6 Bell, "A Summary of Current Egg Industry Statistics."

in feed costs would have virtually wiped out the reported margin for the entire year.

In fact, there is good reason to believe the USDA figures significantly overstate profitability – or in last year's case, understate losses – in the egg industry. The benchmark pricing recognized by the industry is the service provided by Urner Barry Publications, Inc. Prices paid to producers by customers are typically negotiated "back of," or at a discount to, the Urner Barry price quotation. From reports by UEP members – who account for 80% of all production – we estimate that in 2000, most producers got 35 cents less than the Urner Barry quote. For large eggs in the Midwest, the year's average Urner Barry quote was 71.15 cents, so subtracting 35 cents yields 36.15 cents, not USDA's 46.9 cents.

This means that on average, producers in 2000 were losing more than 6 cents a dozen on eggs. Like many other segments of production agriculture, their production costs were not covered by low prices that resulted from a surplus of laying hens. To add 4 cents per dozen *more* to production costs in this already difficult environment would have devastated the industry, hastened consolidation, forced many smaller operations out of business and had other undesirable effects.

Another way to gauge the impact of commodity price changes on our industry is to look at the nationwide effects. Earlier, we said that the egg industry uses about 250 million bushels of corn each year. A $1 per bushel change in corn prices, therefore, increases or decreases the industry's total costs by $250 million. This change would be about 6% of total farm cash receipts for eggs.

Let Markets Decide

The price of corn, soybeans and other grains and oilseeds will fluctuate with supply and demand. Adverse or favorable weather, strong or weak export demand, a turn in the cattle or hog cycles – all these factors can cause feed prices to increase or decrease. Egg producers accept these realities.

The egg industry simply asks that federal policies allow prices to be market-driven to the greatest extent possible. This means that we ask Congress not to enact policies that would distort the price of feed.

Prices are distorted when government policies short the market, leading to artificial price spikes. But policies that artificially encourage surplus grain or oilseed production – with the accompanying depressed prices – also distort the market. Although low grain and oilseed prices reduce egg production costs in the short run, in the long run they may induce egg surpluses by encouraging excessive expansion in the industry.

Whatever income supports and safety nets are provided through the farm bill – and we do not seek to dictate what such programs should look like – they should be designed so that prices are free to move in response to supply and demand. The market, not the government, should set feed costs.

UEP thanks the Committee for its consideration of its views and commends the Committee and particularly its Chairman for initiating early work on the next farm bill.